Alberta

2016-17 **First Quarter**
Fiscal Update and Economic Statement

August 2016

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NOTE: *Amounts presented in tables may not add to totals due to rounding.*

Alberta

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2016–17 FIRST QUARTER FISCAL UPDATE

Method of Consolidation

The *2016-17 First Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2016*. This is the same scope and consolidation approach used in the Consolidated Financial Statements in the Government of Alberta Annual Report.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, inventory consumption, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as "deferred capital contributions" when the cash or asset is received, and recognized in revenue over the related asset's useful life (in effect matching the asset's amortization expense).

Expense includes the province's cash payments towards the unfunded pension liabilities, and the non-cash change in unfunded pension liabilities.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Planning and Transparency Act* (FPTA) requires reporting to the public on the accuracy of the Fiscal Plan on or before August 31st. The FPTA gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2016-17 First Quarter Fiscal Update and Economic Statement* includes comparisons between the *Budget 2016* estimates and first quarter forecasts for revenue and expense (including details and categories of each); the surplus / (deficit); the Contingency Account balance and cash adjustments; a summary balance sheet; the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided.

Under the FPTA, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, First Nations settlements, or increases funded by reserves of school boards, post-secondary institutions or Alberta Health Services, are limited to 1% of budgeted operating expense.

The forecast provided in this report is in compliance with the requirements of the FPTA.

2016-17 FIRST QUARTER FISCAL UPDATE

Fiscal Plan Highlights

A deficit of $10.9 billion is forecast for 2016-17, $527 million higher than estimated in *Budget 2016*.

The forecast includes current estimates of a net $500 million fiscal impact in 2016-17 of the Wood Buffalo wildfire. Disaster Recovery Program (DRP) expense is forecast at $647 million, partially offset by federal assistance of $452 million. The impacts also include lower bitumen production, and an estimated $300 million reduction in non-renewable resource, corporate and personal income tax revenue.

Revenue is forecast to be $42.1 billion, $708 million higher than estimated.

- Resource revenue has increased a net $744 million to $2.1 billion, mainly due to a higher oil price forecast, a lower light-heavy differential, and lower natural gas production costs and higher gas well productivity, partly offset by the increased Canadian-US exchange rate and lower natural gas prices.
- The West Texas Intermediate oil price forecast has increased from budget by US$3 to $45 per barrel. Fiscal year-to-date (August 19), prices have averaged $45.17. The light-heavy differential forecast has declined by US$1.10 to $14.10. The natural gas Alberta Reference Price forecast has decreased 50 cents, to Cdn$1.90 per gigajoule, and the exchange rate forecast has increased by 3.5 cents, to 77US¢/Cdn$.
- Personal income tax revenue has increased $215 million from budget, to $11.6 billion, due to a positive $431 million prior-years' adjustment (higher 2015 assessment data means 2014-15 and 2015-16 revenue was under-reported), partly offset by a net $216 million decrease from lower household income growth.
- Corporate income tax revenue is forecast at $3.4 billion, a decrease of $877 million from *Budget 2016*, due mainly to lower-than-expected 2015-16 revenue and the impact of the weak economy and the Wood Buffalo wildfire.
- Total revenue from other sources is forecast at $2.5 billion, $626 million higher than budget. Federal transfers are $652 million higher, due to $452 million for Wood Buffalo wildfire assistance, $100 million for public transit, water/wastewater and social housing infrastructure projects, and a net $100 million primarily for agriculture insurance premiums, social housing and employment programs for persons with disabilities. Other increases of $141 million in Climate Change and Emissions Management Fund compliance payments, $60 million in agriculture producer insurance premiums and a net $19 million from other sources are offset by decreases of $211 million in tax revenue, mainly from lower-than-expected fuel and tobacco consumption, and $35 million in timber rentals and fees due to lower US lumber demand.

Expense is forecast at $52.3 billion, $1.2 billion higher than *Budget 2016*.

- Operating expense is forecast at $44.2 billion, an increase from budget of $122 million. The increase primarily consists of $100 million for health care drug costs and more clients accessing health benefit programs, $12 million for the new small brewer grants and $12 million for social housing programs funded by federal transfers.
- Disaster assistance of $1,072 million is forecast, $826 million higher than budget, including $647 million reported in 2016-17 expense for the Wood Buffalo DRP, $369 million for wildfire-fighting costs, and $9 million in 2013 Alberta flood assistance from 2015-16, partly offset by the $200 million in unallocated disaster assistance included in the budget.
- Capital grants of $2.5 billion are $238 million higher than estimated in budget, mainly due to increased federal funding and re-allocations from capital investment for seniors lodges, continuing care and flood mitigation projects.
- Other expense is $49 million higher, comprising $12 million for amortization and $37 million for debt servicing costs ($25 million from higher Fiscal Plan borrowing and $12 million for Alberta Capital Finance Authority).

Direct borrowing for the Fiscal Plan is forecast on March 31, 2017 to be $7.1 billion. This is higher than budget due to final 2015-16 results, which reduced the Contingency Account balance by $863 million (the year-end balance was $168 million lower, and another $695 million had to be withdrawn in 2016-17), and a further $850 million from the revised forecast for 2016-17. The 2016-17 forecast includes a $527 million increase to the deficit, a $247 million increase in revenue retained by various funds and agencies, and a net $76 million increase in various other cash requirements, primarily from differences between reported revenue and when cash is received. Further information is provided in the Contingency Account table on page 9.

FISCAL PLAN SUMMARY

(millions of dollars)

Income Statement

	Fiscal Year			Change
	2015-16	2016-17		from
	Actual	Budget[a]	Forecast	Budget
Revenue				
Income tax revenue	15,552	15,730	**15,068**	(662)
Other tax revenue	5,168	6,037	**5,826**	(211)
Non-renewable resource revenue	2,789	1,364	**2,108**	744
Other revenue	18,991	18,304	**19,141**	837
Total Revenue	**42,500**	**41,435**	**42,143**	**708**
Expense				
Operating expense (net of in-year savings)	43,189	44,094	**44,216**	122
Climate Leadership Plan operating expense	-	325	**325**	-
Disaster assistance (with operating 2013 flood support)	563	246	**425**	179
Wood Buffalo Disaster Recovery Program	-	-	**647**	647
Capital grants (including 2013 flood support)	1,911	2,288	**2,526**	238
Climate Leadership Plan Capital Plan	-	5	**5**	-
Amortization / inventory consumption / disposal losses	3,131	3,208	**3,220**	12
General debt servicing costs	330	367	**404**	37
Capital Plan debt servicing costs	446	629	**629**	-
Pension provisions	(630)	(65)	**(65)**	-
Total Expense	**48,942**	**51,097**	**52,332**	**1,235**
Risk Adjustment	**-**	**(700)**	**(700)**	**-**
Surplus / (Deficit)	**(6,442)**	**(10,362)**	**(10,889)**	**(527)**

Capital Plan

Capital grants	1,911	2,288	**2,526**	238
Capital investment	4,647	6,188	**6,195**	7
Climate Leadership Plan (capital grants)	-	5	**5**	-
Total Capital Plan	**6,558**	**8,481**	**8,726**	**245**

Balance Sheet

	At March 31			Change
	2016	2017		from
	Actual	Budget[b]	Forecast	2016
Financial Assets				
Heritage Fund, endowment and other funds	19,262	19,615	19,614	352
Contingency Account	3,625	-	-	(3,625)
Self-supporting lending organizations	20,204	21,349	21,389	1,185
Capital Plan financing account	1,892	129	-	(1,892)
Other financial assets (including SUCH sector)	19,042	20,355	20,535	1,493
Total Financial Assets	**64,025**	**61,448**	**61,538**	**(2,487)**
Liabilities				
Liabilities for capital projects	19,040	24,180	24,134	5,094
Debt for pre-1992 Teachers' Pension Plan	944	944	944	-
Direct borrowing for the Fiscal Plan	-	5,369	7,082	7,082
Self-supporting lending organizations	17,941	18,790	18,718	777
Other liabilities (including SUCH sector)	11,653	11,765	10,734	(919)
Pension liabilities	10,566	10,501	10,501	(65)
Total Liabilities	**60,144**	**71,549**	**72,113**	**11,969**
Net Financial Assets	**3,881**	**(10,101)**	**(10,575)**	**(14,456)**
Capital / other non-financial assets	47,311	51,157	51,106	3,795
Spent deferred capital contributions	(2,650)	(2,876)	(2,878)	(228)
Net Assets	**48,542**	**38,180**	**37,653**	**(10,889)**
Change in Net Assets (before adjustments)	**(6,442)**	**(10,362)**	**(10,889)**	

[a] Budget revenue has been increased by $59 million due to an accounting policy change made in the *2015–16 Government of Alberta Annual Report*: donations to SUCH sector entities for endowments are now reported as revenue on the income statement instead of as adjustments to net assets on the balance sheet.

[b] Budget numbers have been restated to reflect 2015-16 actual results.

REVENUE

(millions of dollars)

	Fiscal Year			Change from
	2015-16	2016-17		
	Actual	Budget	Forecast	Budget
Income Taxes				
Personal income tax	11,357	11,405	**11,620**	215
Corporate income tax	4,195	4,325	**3,448**	(877)
	15,552	**15,730**	**15,068**	**(662)**
Other Taxes				
Education property tax	2,255	2,414	**2,414**	-
Fuel tax	1,370	1,469	**1,389**	(80)
Tobacco tax	980	1,139	**1,041**	(98)
Insurance taxes	403	590	**588**	(2)
Carbon levy	-	274	**248**	(26)
Freehold mineral rights tax	79	71	**70**	(1)
Tourism levy	81	80	**76**	(4)
	5,168	**6,037**	**5,826**	**(211)**
Non-Renewable Resource Revenue				
Bitumen royalty	1,223	656	**1,084**	428
Crude oil royalty	689	333	**395**	62
Natural gas and by-products royalty	493	151	**362**	211
Bonuses and sales of Crown leases	203	95	**132**	37
Rentals and fees / coal royalty	181	129	**135**	6
	2,789	**1,364**	**2,108**	**744**
Transfers from Government of Canada				
Canada Health Transfer	4,014	4,223	**4,234**	11
Canada Social Transfer	1,516	1,563	**1,567**	4
Direct transfers to SUCH sector	404	500	**501**	1
Agriculture support programs	308	300	**328**	28
Infrastructure support	267	282	**382**	100
Labour market agreements	177	178	**178**	-
Other (includes $452 million for Wood Buffalo wildfire)	456	232	**740**	508
	7,142	**7,278**	**7,930**	**652**
Investment Income				
Alberta Heritage Savings Trust Fund	1,388	1,185	**1,185**	-
Endowment funds	347	256	**256**	-
Alberta Capital Finance Authority	184	157	**176**	19
Agriculture Financial Services Corporation	132	137	**137**	-
Other (includes SUCH sector / Contingency Account)	493	380	**376**	(4)
	2,544	**2,115**	**2,130**	**15**
Net Income from Government Business Enterprises				
AGLC – Gaming / lottery	1,553	1,451	**1,428**	(23)
AGLC – Liquor	856	868	**888**	20
Alberta Treasury Branches	108	27	**27**	-
Other – CUDGCo / APMC	53	70	**60**	(10)
	2,570	**2,416**	**2,403**	**(13)**
Premiums, Fees and Licences				
Post-secondary institution tuition fees	1,158	1,157	**1,157**	-
Health / school board fees and charges	702	711	**716**	5
Motor vehicle licences	517	528	**516**	(12)
Crop, hail and livestock insurance premiums	299	301	**361**	60
Energy industry levies	303	303	**303**	-
Land titles	80	79	**79**	-
Other (includes land and grazing, health benefits premiums)	515	570	**532**	(38)
	3,574	**3,649**	**3,664**	**15**
Other				
SUCH sector sales, rentals and services	971	950	**971**	21
SUCH sector fundraising, donations and services	738	627	**634**	7
AIMCo investment management charges	267	307	**307**	-
Fines and penalties	256	209	**209**	-
Refunds of expense	358	140	**144**	4
Climate change and emissions management	200	101	**242**	141
Miscellaneous	371	512	**507**	(5)
	3,161	**2,846**	**3,014**	**168**
Total Revenue	**42,500**	**41,435**	**42,143**	**708**

OPERATING EXPENSE BY MINISTRY

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	Forecast	
Advanced Education	5,214	5,392	**5,387**	(5)
Agriculture and Forestry	989	1,036	**1,048**	12
Culture and Tourism	289	285	**285**	-
Economic Development and Trade	243	337	**337**	-
Education	7,553	7,544	**7,544**	-
Energy	549	549	**549**	-
Environment and Parks	388	403	**405**	2
Executive Council	25	27	**27**	-
Health	18,506	18,959	**19,059**	100
Human Services	4,154	4,388	**4,388**	-
Indigenous Relations	175	183	**183**	-
Infrastructure	491	496	**496**	-
Justice and Solicitor General	1,348	1,337	**1,338**	1
Labour	188	210	**210**	-
Municipal Affairs	245	262	**262**	-
Seniors and Housing	559	576	**588**	12
Service Alberta	240	251	**251**	-
Status of Women	1	8	**8**	-
Transportation	462	471	**471**	-
Treasury Board and Finance	1,432	1,505	**1,505**	-
Legislative Assembly	132	125	**125**	-
In-year savings	-	(250)	**(250)**	-
Climate Leadership Plan:				
Environment and Parks	-	230	**230**	-
Treasury Board and Finance	-	95	**95**	-
Total Operating Expense	**43,189**	**44,419**	**44,541**	**122**

DISASTER / EMERGENCY ASSISTANCE EXPENSE

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	Forecast	
Agriculture and Forestry	527	-	**369**	369
Municipal Affairs	3	-	**647**	647
Unallocated	-	200	-	(200)
Total	**530**	**200**	**1,016**	**816**
2013 Alberta flood assistance:				
Culture and Tourism	2	6	**6**	-
Environment and Parks	11	7	**16**	9
Human Services	1	1	**1**	-
Indigenous Relations	6	7	**7**	-
Infrastructure	7	22	**22**	-
Municipal Affairs	7	4	**4**	-
Total 2013 Alberta flood assistance	**33**	**46**	**56**	**9**
Total Disaster / Emergency Assistance	**563**	**246**	**1,072**	**825**

INVENTORY CONSUMPTION EXPENSE

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	Forecast	
Health	846	754	**754**	-
Infrastructure	3	14	**14**	-
Service Alberta	14	8	**8**	-
Transportation	43	50	**50**	-
Other (Agriculture and Forestry / Culture and Tourism / Seniors and Housing)	5	2	**2**	-
Total Inventory Consumption Expense	**911**	**828**	**828**	**-**

CAPITAL AMORTIZATION EXPENSE

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	2016-17 Forecast	
Advanced Education	486	503	503	-
Agriculture and Forestry	25	29	29	-
Culture and Tourism	3	3	3	-
Economic Development and Trade	5	5	5	-
Education	331	362	362	-
Energy	23	20	20	-
Environment and Parks	42	44	44	-
Health	608	605	612	7
Human Services	11	7	7	-
Infrastructure	103	119	119	-
Justice and Solicitor General	12	59	59	-
Labour	2	1	1	-
Municipal Affairs	2	3	3	-
Seniors and Housing	33	38	43	5
Service Alberta	36	42	42	-
Transportation	474	514	514	-
Treasury Board and Finance	18	21	21	-
Legislative Assembly	4	4	4	-
Total Amortization Expense	**2,217**	**2,379**	**2,391**	**12**

DEBT SERVICING COSTS

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	2016-17 Forecast	
General				
Advanced Education – post-secondary institutions	41	43	43	-
Agriculture and Forestry – Agriculture Financial Services Corporation	68	72	72	-
Education – school boards	10	10	10	-
Health – Alberta Health Services	15	17	17	-
Seniors and Housing – Alberta Social Housing Corporation	8	6	6	-
Treasury Board and Finance – Alberta Capital Finance Authority / other	188	219	256	37
Total general debt servicing costs	**330**	**367**	**404**	**37**
Capital Plan				
Education – Alberta Schools Alternative Procurement P3s	30	29	29	-
Transportation – ring road P3	71	83	83	-
Treasury Board and Finance – direct borrowing	345	517	517	-
Total Capital Plan debt servicing costs	**446**	**629**	**629**	**-**
Total Debt Servicing Costs	**776**	**996**	**1,033**	**37**

INVENTORY ACQUISITION

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	2016-17 Forecast	
Health	843	756	756	-
Infrastructure	13	3	3	-
Service Alberta	14	8	8	-
Transportation	44	50	50	-
Other (Agriculture and Forestry / Culture and Tourism)	2	2	2	-
Total Inventory Acquisition	**915**	**819**	**819**	**-**

CONTINGENCY ACCOUNT

(millions of dollars)

	Fiscal Year			Change from
	2015-16 Actual	2016-17 Budget	2016-17 Forecast	Budget
Balance at Start of Year	**6,529**	**3,793**	**3,625**	(168)
Surplus / (Deficit)	(6,442)	(10,362)	**(10,889)**	(527)
Cash Adjustments (negative = cash requirement; positive = cash source)				
SUCH / Alberta Innovates own-source revenue / expense	563	156	**129**	(27)
Pension provisions (non-cash expense)	(630)	(65)	**(65)**	-
Net deferred capital contribution adjustment (excluding SUCH)	73	186	**188**	2
Retained income of funds, agencies and accounts:				
Alberta Heritage Fund	(209)	(243)	**(243)**	-
Alberta Treasury Branches	(108)	(27)	**(27)**	-
Agriculture Financial Services Corporation	(149)	(296)	**(409)**	(113)
Endowment funds	(179)	(77)	**(76)**	1
Alberta Social Housing Corporation	(17)	54	**38**	(16)
Alberta Capital Finance Authority	(56)	(52)	**(59)**	(7)
Climate Change and Emissions Management Fund	(194)	119	**(23)**	(142)
Carbon Levy account	-	(119)	**(93)**	26
Other	(88)	(77)	**(73)**	4
Energy royalties (difference between accrued revenue and cash)	60	(50)	**(337)**	(287)
Student loans	(362)	(341)	**(341)**	-
Other cash adjustments	309	(445)	**(288)**	157
2013 Alberta flood assistance revenue / expense	(86)	(121)	**(100)**	21
2016 Wood Buffalo wildfire revenue / expense	-	-	**2**	2
Inventory acquisition	(127)	(127)	**(127)**	-
Inventory consumption (non-cash expense)	125	135	**135**	-
Capital Plan (excluding SUCH sector) cash sources / (requirements):				
Capital investment	(3,888)	(5,237)	**(5,269)**	(32)
Amortization / book value of disposals (non-cash expense)	849	935	**940**	5
Withdrawal from / (deposit to) Capital Plan financing account	(1,892)	1,763	**1,892**	129
Direct borrowing for the Capital Plan	7,016	5,035	**4,986**	(49)
Alternative financing (P3s – public-private partnerships)	143	145	**148**	3
Current principal repayments (P3s)	(41)	(51)	**(51)**	-
Surplus / (Deficit) plus net cash adjustments	**(5,330)**	**(9,162)**	**(10,012)**	**(850)**
Cash from prior-year final results	1,731	-	**(695)**	(695)
Cash to be transferred next year	695	-	**-**	-
Direct borrowing for the Fiscal Plan	-	5,369	**7,082**	1,713
Balance at End of Year	**3,625**	**-**	**-**	-

2016–17 FINANCING REQUIREMENTS[a]

(millions of dollars)

	First 3 months of 2016-17			Fiscal Year			Change from
				2015-16	2016-17		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	1,259	4,083	2,824	7,016	5,035	**4,986**	(49)
Direct borrowing for the Fiscal Plan	1,342	-	(1,342)	-	5,369	**7,082**	1,713
Term debt borrowing for provincial corporations[b]:							
Agriculture Financial Services Corporation	93	-	(93)	182	373	**373**	-
Alberta Capital Finance Authority	398	118	(280)	1,402	1,590	**1,590**	-
Alberta Petroleum Marketing Commission	83	-	(83)	-	331	**331**	-
Alberta Treasury Branches	363	-	(363)	295	1,450	**1,450**	-
Total Financing Requirements / Completed to Date	**3,537**	**4,201**	**664**	**8,895**	**14,148**	**15,812**	**1,664**

[a] Since June 30 2016, additional debt has been issued for Fiscal Plan purposes (Cdn$512 million), for Capital Plan purposes (Cdn$417 million),for Alberta Capital Finance Authority (Cdn$788 million), for Alberta Treasury Branches (Cdn$505 million) and for Agriculture Financial Services Corporation (Cdn$101 million).

[b] Gross borrowing requirements for provincial corporations. Include amounts of maturing debt being re-financed.

Capital Plan Highlights

2016-17 Capital Plan spending is forecast to be $8.7 billion, an increase of $245 million from *Budget 2016*. This comprises primarily $101 million in 2015-16 projects carried-over to the current year, mostly related to 2013 Alberta flood assistance, $100 million in federal infrastructure program funding for public transit, water/wastewater and social housing projects, $68 million in additional SUCH sector (school boards, universities, colleges and health entities) projects, and a net $24 million reduction due mainly to re-profiling of projects to future years.

Direct borrowing for the Capital Plan is forecast to be $5 billion, a decrease of $49 million from budget, primarily due to additional borrowing and lower-than-forecast spending in 2015-16. Cash received for capital purposes has increased by $94 million, due primarily to new federal infrastructure programs. Spending financed by the SUCH sector has increased by $68 million.

CAPITAL PLAN SUMMARY

(millions of dollars)

	Fiscal Year			Change from
	2015-16	2016-17		
Summary	Actual	Budget	Forecast	Budget
Capital Plan Spending	**6,558**	**8,481**	**8,726**	**245**
Capital Plan Financing:				
Cash received for capital purposes	405	554	**648**	94
Retained income of funds and agencies	95	121	**121**	-
SUCH sector self-financed	759	858	**926**	68
Climate Leadership Plan	-	5	**5**	-
Book value of capital asset disposals	32	-	**-**	-
Alternative financing (P3s)	143	145	**148**	3
Direct borrowing	7,016	5,035	**4,986**	(49)
Capital Plan financing account withdrawal / (deposit)	(1,892)	1,763	**1,892**	129
Total Capital Plan Financing	**6,558**	**8,481**	**8,726**	**245**
By Ministry				
Advanced Education	767	966	**971**	5
Agriculture and Forestry	50	51	**51**	-
Culture and Tourism	40	48	**48**	-
Economic Development and Trade	5	9	**9**	-
Education	1,060	1,900	**1,892**	(8)
Energy	176	215	**209**	(6)
Environment and Parks	40	51	**50**	(1)
Health	712	958	**982**	24
Human Services	6	5	**6**	1
Indigenous Relations	18	3	**3**	-
Infrastructure	232	372	**385**	13
Justice and Solicitor General	54	39	**45**	6
Labour	3	1	**1**	-
Municipal Affairs	1,142	1,503	**1,506**	3
Seniors and Housing	93	289	**294**	5
Service Alberta	41	105	**110**	5
Transportation	1,906	1,670	**1,781**	111
Treasury Board and Finance	22	21	**23**	2
Legislative Assembly	1	1	**1**	-
2013 Alberta flood assistance:				
Environment and Parks	110	204	**266**	62
Infrastructure	5	11	**12**	1
Municipal Affairs	17	14	**14**	-
Transportation	59	42	**56**	14
Other (Education / Health)	-	-	**5**	5
Climate Leadership Plan – Environment and Parks	-	5	**5**	-
Total Capital Plan	**6,558**	**8,481**	**8,726**	**245**

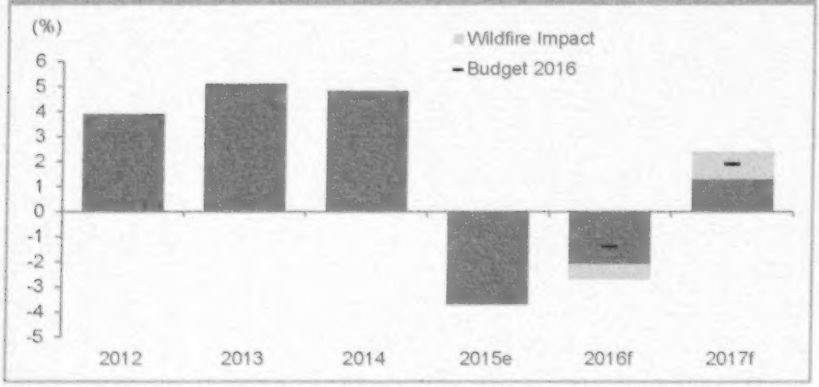
ECONOMIC OUTLOOK

Wildfires add to economic challenges

The steep and prolonged drop in oil prices continues to have a profound impact on Alberta's economy. This year, the impact has spread beyond the energy sector. Housing, retail activity, construction, labour markets and manufacturing are all showing significant signs of weakness. Adding to the already strong economic headwinds, forest fires in the Wood Buffalo region temporarily disrupted oil production and further reduced GDP in 2016. Alberta's real GDP is now forecast to decline by 2.7% in 2016 compared with the 1.4% reduction anticipated in *Budget 2016*. This follows an estimated contraction of 3.7% in 2015 (Figure 1).

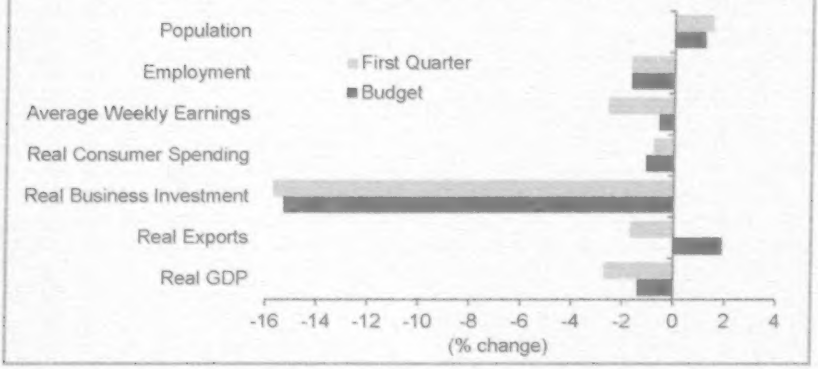
A modest recovery for the Alberta economy is forecast in 2017, supported by reconstruction in Fort McMurray and a rebound in oil production. Public sector investments in infrastructure and a small improvement in oil prices will also contribute to growth. Lower cost pressures, improved labour availability and a lower Canadian dollar will continue to cushion the effects of lower oil prices on the Alberta economy.

Figure 1. Alberta Real GDP Growth



Sources: Statistics Canada and Alberta Treasury Board and Finance

Figure 2. Forecast of Select Economic Indicators, 2016



Source: Alberta Treasury Board and Finance

Alberta Business Sector

Oil prices remain subdued

Oil production disruptions associated with the Fort McMurray fires and instability in Libya and Nigeria have reduced supply and provided some support to oil prices so far this year. This has led to a small increase in the 2016-17 forecast price for West Texas Intermediate from US$42/bbl to $45/bbl. The impact on producers has been partly offset by a stronger Canadian dollar, which is now forecast at US¢77.0/Cdn$ for 2016-17.

Export outlook weakens

Exports, which were expected to provide a needed boost to the Alberta economy this year, are now forecast to decline. Production outages from the forest fires in the Wood Buffalo region considerably reduced real oil exports (see pages 14-15). In addition, most other categories of exports, in particular manufacturing, have weakened significantly since *Budget*.

Overall, Alberta's real exports are now forecast to fall by 1.7% compared with 1.9% growth forecast in *Budget* (Figure 2).

Investment stays low

As forecast at *Budget*, investment is expected to remain weak this year and carry into 2017. In 2016, energy investment is forecast to be about half of 2014 levels. The construction sector will get a boost from reconstruction activity in Fort McMurray starting this year; however, overall non-energy investment is also expected to decline. Real investment is forecast to fall almost 16% in 2016 and around 2% in 2017.

Weak economic conditions, combined with oil supply disruptions, mean that net corporate operating surplus, a measure of corporate profits, is

ECONOMIC OUTLOOK

now expected to fall 27% this year compared to an anticipated 18% drop at *Budget*.

Modest recovery in 2017

Alberta's economy is expected to improve in 2017, supported by a small increase in oil prices, public sector infrastructure spending and wildfire reconstruction. A rebound in oil production will also provide a boost to growth. Real GDP is now forecast to expand by 2.4% in 2017 compared to the 1.9% that was anticipated at *Budget*. Increased investment in infrastructure is expected to add about 0.6–0.7% to real GDP in 2017.

Alberta Household Sector

Population continues to grow

Despite the weak economy, Alberta's population is forecast to grow 1.5% in 2016, up from 1.2% in the *Budget*, bolstered by stronger than expected immigration and natural increase. Record setting immigration is forecast for this census year, boosted by Syrian refugees and the Express Entry program. This has more than offset the continued outflow of migrants to other provinces and losses in non-permanent residents.

Employment challenges persist

Employment in 2016 is expected to fall by 1.7%, in line with the *Budget* forecast. Over the last twelve months the impact of the employment reductions have been most pronounced in the goods-producing sector where employment has fallen by a total of 82,300 jobs since July 2015. These losses were partially offset by gains in the services-producing sector which grew by 33,200 jobs since July 2015 (Figure 3). A slightly larger lift in employment of 1.2% in 2017 is now forecast due to reconstruction efforts.

After averaging 7.6% in the first six months of 2016, Alberta's unemployment rate jumped to 8.6% in July. The unemployment rate is expected to remain elevated over the last half of 2016 and average 8% for the year.

Earnings lower

Persistent labour market challenges are impacting Alberta's wages; average weekly earnings are now forecast to fall by 2.6%, two percentage points lower than *Budget*. As a result, primary household income in 2016 is forecast to fall 3.0%.

Household spending remains weak

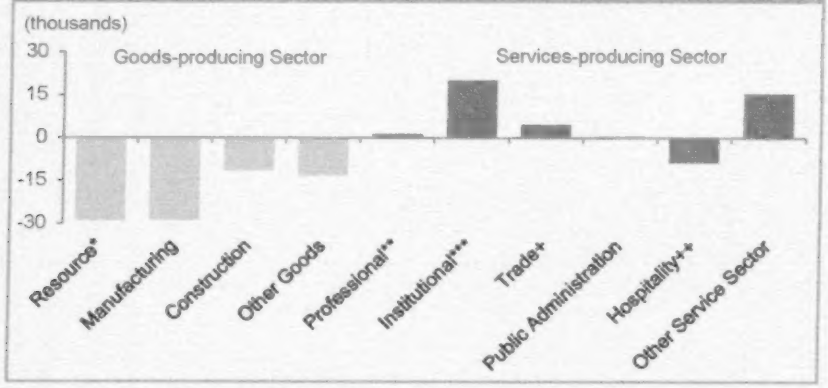
As anticipated at *Budget*, weak labour market conditions are weighing on housing and consumer spending. Although the forecast for housing starts has been revised up slightly in 2016 and 2017, starts in 2016 are expected to be over 35% lower than in 2015. The upward revision is due in part to the reconstruction of residential homes in Fort McMurray, in addition to stronger-than-expected population growth.

The forecast decline in consumer spending anticipated in *Budget 2016* has moderated slightly to -0.8% from -1.1%, due in large part to the increased population forecast. The Alberta CPI is evolving as expected at *Budget*, with 1.4% inflation forecast in 2016.

Risks to the Outlook

- Volatility in foreign financial and commodity markets, linked in part to the Brexit vote and weak global economic conditions, could adversely impact oil prices.
- The recovery in oil prices could take longer than anticipated.
- The impact of the wildfires on Alberta's economy could be larger than anticipated.
- Increased uncertainty about the economy could impact business and consumer confidence, reducing spending and migration.

Figure 3. Change in Alberta Employment By Sector, July 2015 to July 2016



Sources: Statistics Canada and Alberta Treasury Board and Finance

* Includes forestry, mining, oil and gas.
** Includes professional services, scientific services and technological services.
*** Includes health, social assistance and educational services.
\+ Includes transportation, trade and warehousing services.
++ Includes accommodation and food services.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2015-16 Actual	2016-17 3 Month Actual	2016-17 Fiscal Year	
			Budget	1st Quarter
Prices				
Crude Oil Price				
WTI (US$/bbl)	45.00	45.88	42.00	45.00
Light-Heavy Differential (US$/bbl)	13.40	13.30	15.20	14.10
WCS @ Hardisty (Cdn$/bbl)	40.86	41.99	36.40	40.20
Natural Gas Price				
Alberta Reference Price (Cdn$/GJ)	2.21	1.09	2.40	1.90
Production				
Conventional crude oil (000s barrels/day)	508	n/a	524	468
Raw bitumen (000s barrels/day)	2,489	n/a	2,668	2,557
Natural gas (billions of cubic feet)	4,918	n/a	4,765	4,862
Interest rates				
3-month Canada treasury bills (per cent)	0.48	0.51	0.54	0.53
10-year Canada bonds (per cent)	1.47	1.28	1.79	1.30
Exchange Rate (US¢/Cdn$)	76.3	77.6	73.5	77.0

Calendar Year Assumptions	2015 Calendar Year		2016 Calendar Year		2017 Calendar Year	
	Budget	1st Quarter	Budget	1st Quarter	Budget	1st Quarter
Gross Domestic Product						
Nominal (millions of dollars)	333,069[a]	325,922[a]	318,677	313,629	344,040	331,574
per cent change	-11.4[a]	-13.3[a]	-4.3	-3.8	8.0	5.7
Real (millions of 2007 dollars)	315,253[a]	308,269[a]	310,992	299,925	316,901	307,033
per cent change	-1.5[a]	-3.7[a]	-1.4	-2.7	1.9	2.4
Other Indicators						
Employment (thousands)	2,302	2,301	2,263	2,263	2,283	2,290
per cent change	1.2	1.2	-1.7	-1.7	0.9	1.2
Unemployment rate (per cent)	6.0	6.0	8.0	8.0	7.5	7.5
Average Weekly Earnings (per cent change)	-0.3	-0.3	-0.6	-2.6	1.0	1.2
Primary Household Income (per cent change)	0.3[b]	2.7[b]	-1.4	-3.0	2.4	2.5
Net Corporate Operating Surplus (per cent change)	-51.9[b]	-64.2[b]	-18.0	-26.8	48.6	59.9
Housing starts (number of units)	37,500	37,300	22,200	23,500	19,400	21,900
Alberta Consumer Price Index (per cent change)	1.1	1.2	1.5	1.4	1.7	1.9
Population (July 1st, thousands)	4,196	4,196	4,247	4,258	4,287	4,307
per cent change	1.8	1.8	1.2	1.5	1.0	1.2

[a] Alberta Treasury Board and Finance estimate.

WOOD BUFFALO REGION FIRE

Impact of wildfires on Alberta economic activity

The wildfires that raged in and around Fort McMurray forced the evacuation of more than 88,000 residents at the beginning of May and covered an area the size of Prince Edward Island. Over 1,500 residential and commercial structures were destroyed and hundreds more damaged. The city was evacuated for almost a month.

The fire shuttered economic activity in the Regional Municipality of Wood Buffalo (RMWB) and reduced Alberta's oil sands production. While cleanup and reconstruction efforts will provide a positive contribution to GDP growth in the coming years, the disruption to capital projects and oil production will outweigh those effects in 2016. The estimated net impact on real GDP growth in 2016 is a reduction of 0.6 percentage points (Figure 1). A large positive impact is anticipated in 2017 (+1.0 percentage points) as reconstruction ramps up and oil production returns to normal levels, leading to a boost in export growth. The Government of Alberta net fiscal impact is currently estimated at around $500 million in 2016-17 (see page 4).

Immediate Aftermath

Economic activity across the RMWB was immediately and severely disrupted following the May 3 evacuation. The fire forced the closure of Highway 63, the Fort McMurray International Airport, the Northern Lights Regional Health Centre and businesses. Re-entry began June 1, but many services did not return until later in the month, including the airport reopening to commercial traffic and core health centre services. Restricted access to the most impacted neighbourhoods continues as demolition and cleanup efforts contend with dangerous toxins and debris.

Financial aid for evacuees

Governments, private entities and non-profit organizations responded with aid for the thousands of displaced people. This included over $275 million that was injected into the Alberta economy through Government of Alberta-issued debit cards, private donations from outside Alberta and federal and provincial commitments to match donations. Government efforts also established temporary evacuation centres and accommodations.

Economic disruption

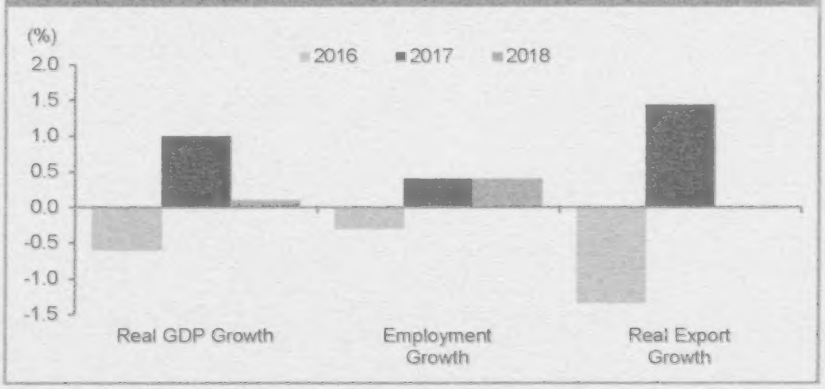
As the threat from the wildfire climbed, it is estimated as much as 1.5 million barrels per day (bpd) of oil sands production was suspended, directly reducing the province's oil exports for the year. Based on initial estimates, it is likely at least 40 million barrels (equivalent to 110,000 bpd annually) was deferred over a two-month period. Despite oil sands production returning to more normal levels by July, this interruption is projected to reduce real oil exports by around 4% in 2016. The GDP impact will be reversed in 2017 with production levels restored to normal for a full year. Additionally, the fire halted drilling activity and delayed oil sands capital expansion plans. The capital spending is anticipated to be spent in later years as construction time lines are extended.

Forestry operations were also impacted. Extensive feed acreage was destroyed for companies harvesting in the region. Northland Forest Products, whose sawmill and log yard facility is located north of Fort McMurray, had production interrupted for a month.

What GDP measures

GDP represents the market value of all newly produced goods and services in a given time. It ignores the stock of capital and consumer goods that were previously accumulated. Damage to these stocks imposes real economic costs on people that are not reflected in GDP. A positive impact on GDP does not imply the wildfire was "good for the Alberta economy."

Figure 1. Estimated wildfire impact on Alberta indicators



Source: Alberta Treasury Board and Finance

WOOD BUFFALO REGION FIRE

The scale of the evacuation and suspension of business activity negatively affected employment in the RMWB and the province. The number of Employment Insurance (EI) beneficiaries in Alberta climbed 11% in May to 77,780, the highest number on record. Wood Buffalo EI beneficiaries more than doubled to 5,270. The net impact on Alberta employment growth in 2016 from the fire is estimated to be a 0.3 percentage point reduction, as job losses from business activity disruption outweigh any gains from fighting the fire or cleanup and reconstruction. In both 2017 and 2018, reconstruction and the return to more normal business activity levels are forecast to add 0.4 percentage points to employment growth.

Reconstruction

In addition to displacing roughly 2% of Alberta's population, the fire destroyed 2,302 individual residential units, contained in 1,599 structures. All but 113 of the destroyed units were located in Fort McMurray proper (Figure 2). The remaining destroyed units were primarily in Anzac, Draper and Saprae Creek, communities southeast of the city. There were 15 commercial properties destroyed. Hundreds of residential and commercial properties damaged.

Insurance coverage

Compared with the 2013 southern Alberta floods, insurance coverage was much more comprehensive, resulting in insurable losses of $3.6 billion, according to the Insurance Bureau of Canada (IBC). That would exceed the insurable losses from both the 2013 floods and the 1998 Ontario/ Quebec ice storm. The IBC anticipates more than 27,000 residential, 12,000 automotive and 5,000 commercial claims as a result of the disaster.

Lengthy rebuilding effort

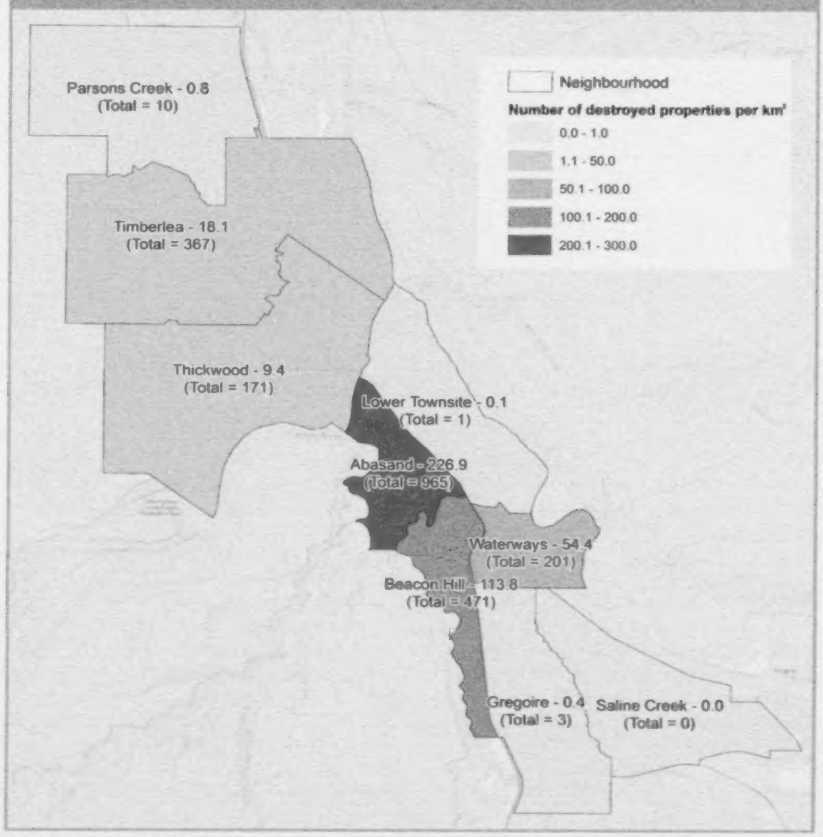
The reconstruction effort is anticipated to take years, with costs incurred by governments, insurance companies, residents and businesses.

Between 2010 and 2014, Wood Buffalo housing starts averaged 732, with a maximum of 967 in 2013. However, the fall in oil prices hit the region's housing market particularly hard, leading to a drop in construction capacity. As a result, even considering the significant slack in the labour market that the construction industry can tap into, residential reconstruction efforts will likely extend beyond 2018. Over the entire reconstruction phase, over $1 billion is expected to be spent on residential rebuilding.

In addition to the reconstruction of destroyed and damaged structures, investment in infrastructure to mitigate future risks is expected, but will also take years to complete.

Given current economic conditions, fire related cleanup and reconstruction spending is not anticipated to put significant pressure on prices and wages in the province. The rental market could tighten as over 70,000 people have already returned to Fort McMurray and accommodation is needed for displaced households until reconstruction is complete.

Figure 2. Fort McMurray residential destruction



Sources: Alberta Treasury Board and Finance, Municipal Affairs, RMWB
Note(s): 'Total' refers to total destroyed residential dwelling units in a neighbourhood